



COLUMBIA
BUSINESS
SCHOOL

Columbia University
Graduate School
of Business

Uris Hall
3022 Broadway, Room 814
New York NY 10027-6902
212 854 0671
Fax 212 662 8474
jes322@columbia.edu

February 24, 2008

Joseph E. Stiglitz
University Professor

Dear Representative Maloney,

I have been trying to study the impact on the American economy of the bail-outs to AIG and to banks. One of the critical questions is where did the money that we gave them go? It is important to know this for several reasons. First, the claim was made that it was necessary to bail-out AIG in order to prevent systemic risk to the American economy. In order to evaluate this claim, we must know who the ultimate beneficiaries were of the money provided to AIG. If, for instance, the money went abroad, then it was unlikely that AIG's failure would have represented systemic risk to the US. If the money went to a large investment bank, then we can assess the impact on that bank. Perhaps without the bail-out the bank would have survived, though admittedly its shareholders would have been worse off.

Secondly, going forward, we have to devise clear rules about when we will bail-out institutions and when we will not. With our growing national debt, it is imperative that we spend taxpayer dollars wisely. If only a small percentage of the AIG money went to banks which were systemically important, it would have been far more efficient to assist directly those firms. The AIG bail-out provides a good case study within which to frame this important policy debate.

Unfortunately, the public does not seem to have access to this information. I realize that some claims may be made that releasing such information at the time of the bail-out might have exacerbated market turmoil. I am, however, a strong believer in market transparency. Many of our current problems can be traced to inadequate transparency. Whatever one's views on this, sufficient time has elapsed that these concerns are no longer relevant. American taxpayers have a right to know where their money is going, and it is imperative that Congress has this information in order to frame appropriate legislative responses.

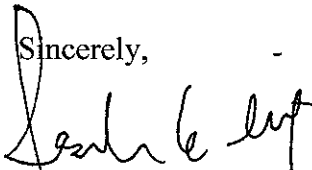
Firms should play by the rules. The basic rule of capitalism is that firms should bear the consequences of their mistakes. If there are exceptions, they should be narrow and well defined. I am requesting that you make publicly available information about who received the money given by the Fed and the U.S. Government to AIG and about the derivative contracts under which this money was delivered. The information I am requesting should be of immense help in assisting Congress to undertake the essential analyses I have described.

It would also be useful to know the analyses that the Federal Reserve and Treasury undertook prior to the bail-out, which led them to the conclusion that the failure of AIG would lead to systemic risk, as well as the analyses that they undertook prior to the decision not to bail-out Lehman Brothers which led them to the conclusion that the failure of Lehman Brothers would not lead to systemic consequences. It is important that the government have appropriate analytic frameworks for addressing these questions, and it is apparent that, at least in the case of Lehman Brothers, the existing frameworks are deficient.

As the current crisis continues to grow, it is important to have this information as quickly as possible.

I look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph E. Stiglitz", written over a vertical line that extends from the typed name below.

Joseph E. Stiglitz
University Professor
Columbia University